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RUEAIIA/CIA WASHINGTON DC PRIORITY

RUEPADJ/CJTF HOA PRIORITY

RUCPDOC/DEPT OF COMMERCE WASHDC PRIORITY

RUEATRS/DEPT OF TREASURY WASHINGTON DC PRIORITY

RUEKDIA/DIA WASHINGTON DC PRIORITY

RHEHAAA/NSC WASHDC PRIORITY

RUEWMFD/HQ USAFRICOM STUTTGART GE PRIORITY

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SUBJECT: ETHIOPIA'S ECONOMY FROM THE VIEWPOINT OF THE URBAN  
POOR

#### SUMMARY

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**¶1.** (SBU) The rising cost of fuel and imported goods, as well as the power shortages that have plagued Addis Ababa for several months, are having a sharply negative impact on families and livelihoods of the urban poor. Over a two-week period, EconOff visited several of Addis Ababa's poorest neighborhoods to examine economic issues from the perspective of city residents with whom the Embassy does not frequently engage. During this period, EconOff toured the city's largest market, visited three soup kitchens, and met with NGO workers who provide services to the city's poorest residents.

Residents, NGO workers, and police reported a rising trend in urban migration, and thus homelessness and crime, as a result of worsening economic conditions in rural areas.

Reported economic growth is not reaching the city's poorest residents, and all eyes look to the government to fashion a response -- an expectation that that is not likely to be met in the near future. End summary.

#### LOCAL MERCHANTS FEEL IMPACT OF ECONOMIC POLICIES

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**¶2.** (SBU) Addis Ababa's Mercato, reported to be the largest open-air market in Africa, continues to do steady business, but many local merchants complain of a drop in sales and difficulty in securing inventory. In the past year, the Government of Ethiopia (GoE) devalued the Ethiopian birr by nearly 30 percent against the U.S. dollar, resulting in higher prices for all imports not subsidized by the government. All vendors questioned criticized the devaluation of the local currency and its impact on import prices, singling out the rising cost of fuel as a particular hardship. Other comments varied by market sector. Vendors of hardware and household goods, for example, stated that they have had to increase prices on the vast majority of their goods, which are imported from China, resulting in a significant drop in sales. EconOff queried whether customers had begun to purchase locally made goods in place of more expensive imports, but vendors uniformly responded that their customers were reluctant to purchase low-quality domestic products, even if it meant they had to do without while they saved to purchase foreign goods. Several hardware vendors added they had heard their wholesalers were having difficulty importing the products they sold as a result of Ethiopia's foreign exchange shortage, and expressed concerns that their sales would decline even further as a result.

**¶3.** (SBU) The Mercato's vendors of building materials had a more positive outlook, thanks to the current construction boom in Addis. However, vendors noted the price of both

imported and locally-produced goods had increased, the latter as a result of power cuts, increased fuel costs, and unreliable transportation. Vendors surveyed stated that the cost of lumber and plywood had risen by 50 percent in the past year, and the cost of locally-produced corrugated metal had risen by 15 to 30 percent. Sales of imported metal were down significantly. Iron rebar, for which vendors reported historical price volatility, has been difficult to obtain because of domestic power cuts and GoE rationing. Vendors stated that builders were still buying rebar, but prices had spiked over 200 percent from the previous year. When locally made rebar was available, prices dropped accordingly. All vendors of construction materials indicated they were selling a higher percentage of their goods to contractors, rather than to individual home or business owners.

¶4. (SBU) In the grain market, traders reported that prices of wheat, barley, and sorghum were stable, and sales remained strong. In response to last year's dramatic spike in food prices, the Ethiopian Grain Trade Enterprise (EGTE) has imported large quantities of these grains and dumped them on the Addis Ababa market. As a result, while prices in rural areas continue to fluctuate, prices in the capital have remained flat. However, merchants were less confident about the price of teff, the staple grain produced primarily in Ethiopia and used to make the country's national dish, injera. (Note: Teff is grown in such small quantities outside Ethiopia that it cannot be imported, so prices are unaffected by the EGTE's dumping. End note.) The price of mixed teff, which averaged 450 birr per 100 kg between 2004 and 2008, rose to over 1000 birr per 100 kg between April and

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June of 2008, and has still not receded. Merchants reported the price of the highest quality teff, which had dropped from a high of 1600 birr per 100 kg in August 2008, is rising again (currently around 1300 birr per kg), and that they expected prices of all qualities of the grain to rise further. Several traders told EconOff that they anticipated prices would spike as a result of poor meher (long) rains in the country, and the resulting poor crop.

RURAL CONDITIONS SPUR URBAN MIGRATION, ASSOCIATED ILLS

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¶5. (SBU) During a visit to Addis Ababa's largest soup kitchen, Dr. Alemu Gebre Wold, General Secretary of HOPE Enterprises (the charity that operates the kitchen), told EconOff that homelessness and begging in the city are growing at rates he has not witnessed in forty years of working with the poor. For many years, HOPE fed between 300 and 500 people each day in Addis Ababa, but eight months ago the organization increased that number to 1,000 as a result of increasing demand. Despite the increase in resources, kitchen workers now frequently must turn away the hungry once the day's food has run out. Dr. Alemu attributed this increase to deteriorating economic conditions and food security in rural areas, and subsequent growth in urban migration.

¶6. (SBU) Dr. Alemu explained that it was traditionally common for residents of rural areas to seek shelter and assistance from family members already living in the city upon arrival. In recent months, however, more and more people HOPE serves had told him that family members were unable to take them in, given their strained resources in the current economic climate. Dr. Alemu relayed a story he commonly hears from beggars (who visit the soup kitchen as a result of HOPE meal tickets many Addis residents distribute to them instead of cash): In the countryside, where work and food are becoming increasingly scarce, the prospect of starvation is all too real. Word has traveled from the capital that in an average day, a beggar can earn 10-15 birr (in the area of one U.S. dollar), which is sufficient to obtain food and rudimentary shelter, depending on the size of one's family. Thus begging in Addis, which is less taboo than in smaller communities,

has become a reasonable job prospect for new migrants. At a second soup kitchen open only to women and children, EconOff and FSN Political Assistant identified the overwhelming majority of clients as newly-arrived migrants. Dr. Alemu also noted, and EconOff witnessed, that large numbers of healthy adults and children are now frequenting soup kitchens, compared to the elderly, disabled, and infirm who comprised the majority in previous years.

**17.** (SBU) Addis Ababa has also experienced an increase in crime in the past six months, according to RSO police contacts. While the police do not enforce vagrancy laws, there has been an increase in incidents of petty theft, principally comprised of non-violent crimes of opportunity. Police attribute this increase to worsening economic conditions and to growth in the city's homeless and transient population. Police specifically note an increase in the number of street children who appear to be committing petty thefts with the intention of being arrested, so that they will have shelter for the night. Because minors who commit non-violent crimes are generally jailed for one to two nights and then released, police report that this crime pattern occurs every rainy season. However, they attribute the increase over previous years to a greater number of street children in the capital. Some of these children are recent migrants, but others are children of local families who have taken to living in the streets in an effort to support their families or feed themselves when their families are unable to do so. Dr. Alemu and Rahel Bisetegne, Coordinator of Our Father's Kitchen, a local charity that provides daily meals to orphan children, also reported an increase in the number of street children in Addis.

COMMENT

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**18.** (SBU) A common theme presented by merchants, NGO workers, and the city residents they serve was the hardship created by the increased cost of living in Addis Ababa. Both merchants who had witnessed a decline in sales and those who had not

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noted that their profits were not keeping up with their increased family and business expenses. HOPE Enterprises and Our Father's Kitchen both reported higher operational costs due to rising food prices and worker salaries, and reiterated that these same factors were creating a greater demand for the services they provide to the needy. Residents surveyed uniformly condemned the devaluation of the local currency and resulting increase in the price of imports, as well as the negative impact of power cuts and increased fuel prices. The city's poorest residents are most definitely not seeing the benefits of economic growth claimed by the government. And while few of the residents surveyed blame the government for the financial strain they currently feel, the vast majority expect the government to take action to improve economic conditions. Faced with a poor forecast for this year's harvest and myriad economic challenges -- as well as elections within the year -- it is unclear whether the government will be able to meet these expectations. End comment.

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